6. Spending Round 2019: keeping perspective

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Key findings

- **Boris Johnson's government used the 2019 Spending Round to announce a 4.4% increase in day-to-day spending on public services (over and above economy-wide inflation) between 2019–20 and 2020–21.** This was not the first increase in such spending since 2010 – total day-to-day spending on services increased between 2018–19 and 2019–20. But this spending round was notable for the size of the increase, and in that *every* government department saw at least a real-terms freeze in its budget.

- **This might end, but does not 'undo', austerity. Total day-to-day spending on public services is still set to be 3% lower in real terms in 2020–21 than it was in 2010–11, and spending outside the Department for Health and Social Care is still set to be 16% below 2010–11 levels.** Since the pre-crisis trend was for public service spending to increase in real terms over time, the gap between spending today and what it might have been if that trend had continued is even greater.

- **Total spending as a share of national income is just 0.6% lower than it was pre-crisis and at around the same level as it was in 2006–07**, but day-to-day spending on public services is now at 14.1% of national income compared with 16.2% in 2007–08. On public services excluding health, it is now at 8.1% of GDP against 11.1% in 2007–08.

- **This genuinely big spending round increase leaves the overall level of day-to-day public service spending for 2020–21 close to the levels implied by the Labour party's 2017 manifesto.** The Conservatives have implemented Labour's plans for school funding, gone some way on further education and social care, exceeded Labour's spending plans on the police and far exceeded them on the NHS. Labour had additional plans for big spending increases on early years and university education that the Conservative government has not chosen to match.

- **Labour's 2017 manifesto may, however, have understated what a Labour government would in reality have spent on the NHS had one been elected.** Had Labour increased NHS spending to the same extent as the Conservative government has done, in addition to its other manifesto commitments, then day-to-day spending on public services next year under Labour would have been around £9 billion higher than post-spending-round plans**.**

- **Given the stated policies of both main parties, it looks likely that austerity for public service spending is over for now.** That will, of course, mean some combination of higher taxes and/or higher borrowing. In either case, if the economy fails to grow as hoped – for example, due to a disruptive Brexit or other policies that undermine growth – the return to significant real spending increases could be short-lived. A return to austerity could well follow a mini spending boom.

6.1 Introduction

The 2019 Spending Round was published in September 2019 and was limited to a single year, setting departmental budgets for 2020–21 only. Despite the fact the resulting spending envelope was larger than that pencilled in by the previous chancellor, it was notable the spending round took place before this year's Budget and the latest economic and fiscal forecasts from the Office for Budget Responsibility (OBR). A full multi-year spending review is now planned to be held in 2020. In September, the chancellor announced spending increases across the board, with no department facing a real budget cut, and declared austerity to be over.

In this chapter, we describe what Chancellor Sajid Javid announced in the spending round and emphasise the importance of keeping perspective: austerity may have 'ended' but is far from undone. We consider the announced spending increases in the context of the real-terms cuts since 2010 and the longer-run history of public spending, and also compare it with the plans implied by the Labour party's 2017 election manifesto.

6.2 Spending Round 2019 settlements

Day-to-day spending

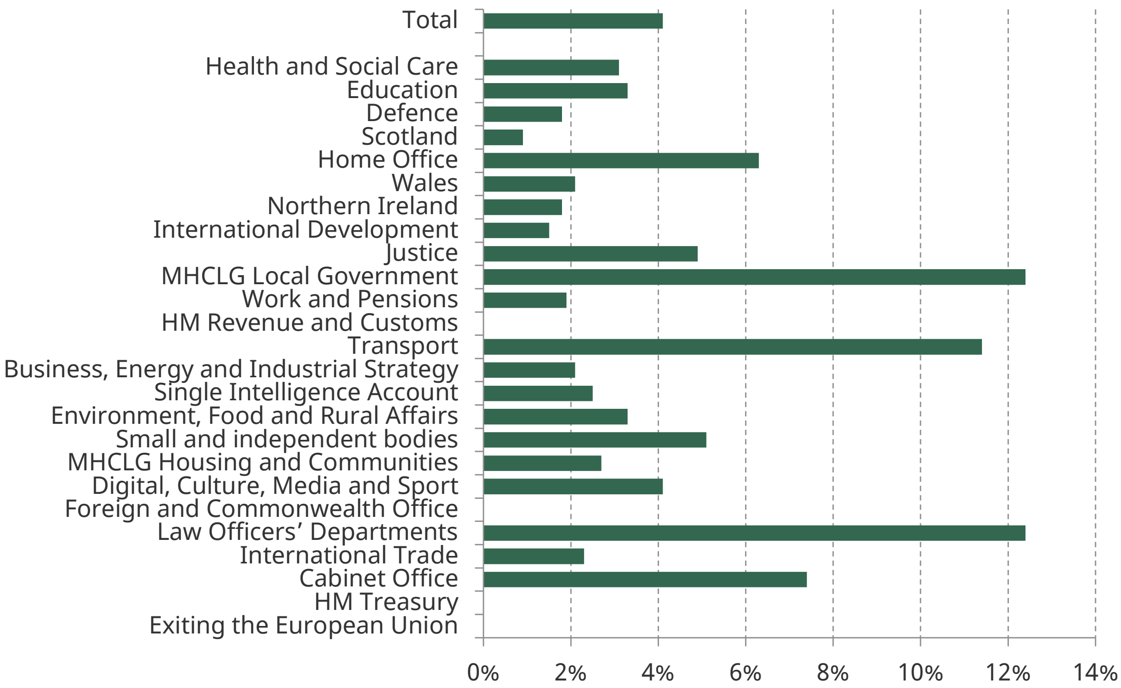
The 2019 Spending Round announced day-to-day departmental spending plans for 2020–21. In aggregate, these were £11.5 billion more generous (in 2019–20 prices) than the provisional plans pencilled into the March 2019 Spring Statement (£11.7 billion more generous in cash terms). As a result, day-to-day spending on public services is planned to increase by 4.4%, over and above economy-wide inflation, between 2019–20 and 2020–21 – an increase in real-terms spending of £13.8 billion.[1]

Figure 6.1 shows how the budget of each government department will change, with departments ordered according to the size of their budget in 2019–20 (from the largest – the Department of Health and Social Care (DHSC), with a budget of £132.3 billion – to the smallest – the Department for Exiting the European Union, with a budget of £0.1 billion). The bars in Figure 6.1 indicate the real-terms percentage change in budgets, while Figure 6.2 provides a breakdown of where the additional funding between 2019–20 and 2020–21 is going in pounds billion terms.

The departments seeing the biggest real pounds billion increase in their budgets are mainly those that were given considerable fanfare before the spending round.

[1] Note that this refers to real growth in the OBR definition of public sector current expenditure in resource departmental expenditure limits (PSCE in RDEL, adjusted for historical discontinuities). The equivalent figure for real growth in the Treasury definition of resource DEL excluding depreciation between 2019–20 and 2020–21 is 4.1% (which is the figure used in table 1.1 of Spending Round 2019). Throughout this chapter, we use the OBR definition where possible, as it is adjusted to be consistent over time and so allows for more meaningful comparisons. It is only available at an aggregate level, however, so for analysis of particular components of day-to-day spending (such as departments), we rely on the HM Treasury definition. 'Economy-wide inflation' refers to converting cash figures to real terms using the GDP deflator.

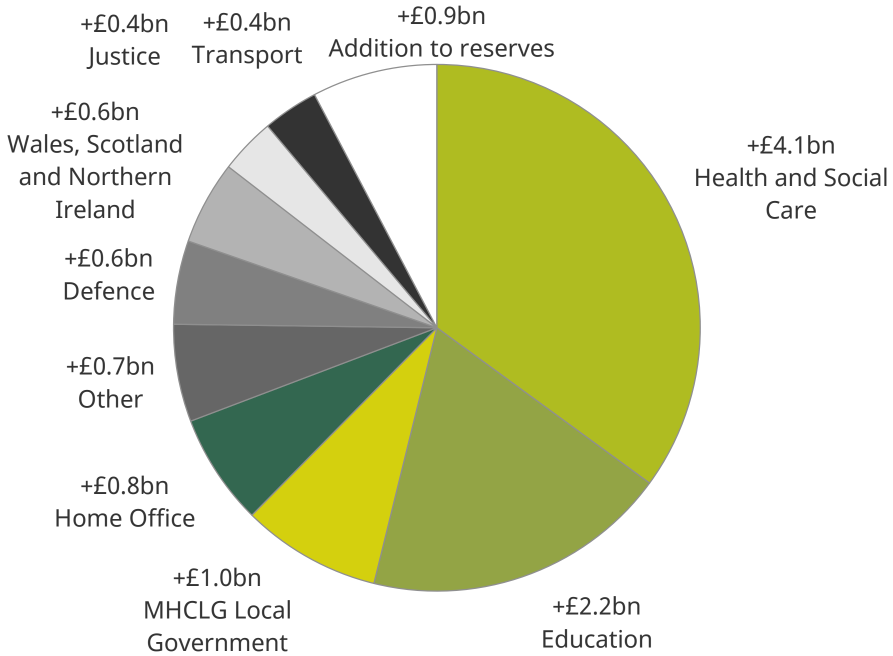
Figure 6.1. Real-terms percentage change in day-to-day budgets, 2019–20 to 2020–21



Note: Total refers here to the Treasury definition of resource DEL excluding depreciation.

Source: Table A2 of Spending Round 2019.

Figure 6.2. Real-terms £ billion change in day-to-day budgets, 2019–20 to 2020–21 (total increase: £13.8 billion)



Note: Figures are resource DEL excluding depreciation, expressed in 2020–21 prices, in line with the presentation in the Spending Round 2019 document. Figures do not sum to £13.8 billion due to rounding and adjustments for baseline funding.

Source: Table A3 of Spending Round 2019.

- **Department for Health and Social Care (+£4.1 billion in 2020–21 prices):** In June 2018, the government promised a real-terms extra £20.5 billion for front-line English NHS services by 2023–24.[2] The increase in spending between 2019–20 and 2020–21 represents the second year of that five-year settlement for the English NHS announced by the then prime minister Theresa May in the run-up to the NHS's 70th birthday last year. Day-to-day spending on wider (i.e. non-NHS) DHSC services such as public health has fallen by 12.5% in real terms over this two-year period.

- **Department for Education (+£2.2 billion in 2020–21 prices):** During the Conservative leadership contest, Boris Johnson promised £4.6 billion in extra funding for schools to reverse some of the cuts made to their budgets.[3] In the 2019 Spending Round, the government duly announced additional funding for schools to deliver on this promise. The first tranche of this is an extra £1.8 billion (in today's prices) in 2020–21, relative to 2019–20 spending. The government also announced an extra £400 million in real terms for other components of the education budget (including further education), taking the total increase for the Department for Education to £2.2 billion.

- **Home Office (+£0.8 billion in 2020–21 prices):** During the Conservative leadership contest, Mr Johnson also promised to hire an extra 20,000 police officers in England and Wales (which, if delivered, would return the number of police officers to around its 2009–10 level).[4] The additional funding for the Home Office provided in the spending round is intended to put the government on track to deliver on this promise by 2023.

In addition, the spending round announced extra funding for social care – an extra £1.1 billion in grant funding for local authorities (£1.0 billion in today's prices). This was part of Mr Javid's announced £2.9 billion cash increase in local government 'core spending power'; the other £1.8 billion is assumed to come from increases in council tax (regular council tax increases, and a 2% precept for social care that the government has said it will consult on) and increases in business rates baseline funding in line with inflation.

One notable feature of this year's spending round settlements is that no department saw a real-terms fall in its budget. Indeed, in contrast to recent spending reviews, many small departments saw relatively large percentage increases in their budgets. For example, the Law Officers' Departments, which includes the Crown Prosecution Service, saw a 12.4% real increase and the Department for Digital, Culture, Media and Sport saw a 4.1% real increase.

The increase in planned spending between 2019–20 and 2020–21 also includes an additional £0.9 billion for the reserve (taking the total to £7 billion in nominal terms, or 2% of budgeted day-to-day departmental spending, in 2020–21) as a contingency to meet any

[2] 'Prime Minister sets out 5-year NHS funding plan', HM Treasury and DHSC press release, 18 June 2018, https://www.gov.uk/government/news/prime-minister-sets-out-5-year-nhs-funding-plan.

[3] Total school spending per pupil fell by 8% in real terms between 2009–10 and 2018–19. Reversing these cuts would cost £4.7 billion a year by 2022–23, in 2019–20 prices. See C. Farquharson and L. Sibieta, '2019 annual report on education spending in England: schools', chapter in IFS Report R162, 2019, https://www.ifs.org.uk/publications/14344.

[4] See figure 4 of R. Crawford, P. Johnson and B. Zaranko, 'Spending Review 2019: deal or no deal', IFS Briefing Note BN254, 2019, https://www.ifs.org.uk/publications/14347.

unforeseeable costs – a sensible move given the uncertainty surrounding departmental responsibilities post-Brexit.

Investment spending

This year's spending round was primarily focused on day-to-day spending, as capital budgets for the 2020–21 financial year were decided at the 2015 Spending Review (which set capital budgets for the following five years and day-to-day spending budgets for four years). Mr Javid did, however, choose to top up those pre-existing capital spending plans for 2020–21 by £1.7 billion. This included an extra £300 million for the DHSC, an extra £500 million for Justice and an extra £200 million for the Home Office (all relative to plans published at the 2018 Budget). Capital spending by departments is now set to grow by 7.5% between 2019–20 and 2020–21, up from the previously planned increase of 4.8%.[5]

6.3 In the context of recent spending cuts

Day-to-day spending

Spending Round 2019 is not the first time day-to-day spending on public services has been increased post-crisis – spending is planned to be 2.3% higher in real terms in 2019–20 than it was in 2018–19 – but at 4.4% the increase announced for next year is larger, and the largest since 2009–10.[6] If delivered, it will be sufficient to return overall day-to-day spending to around the real-terms level it was in 2011–12, and just 3% below the level it was in 2010–11. This is illustrated in Figure 6.3. Taking account of the growth in the population, however, things look somewhat less rosy. Day-to-day spending per person will still be 9% below the level it was in 2010–11.

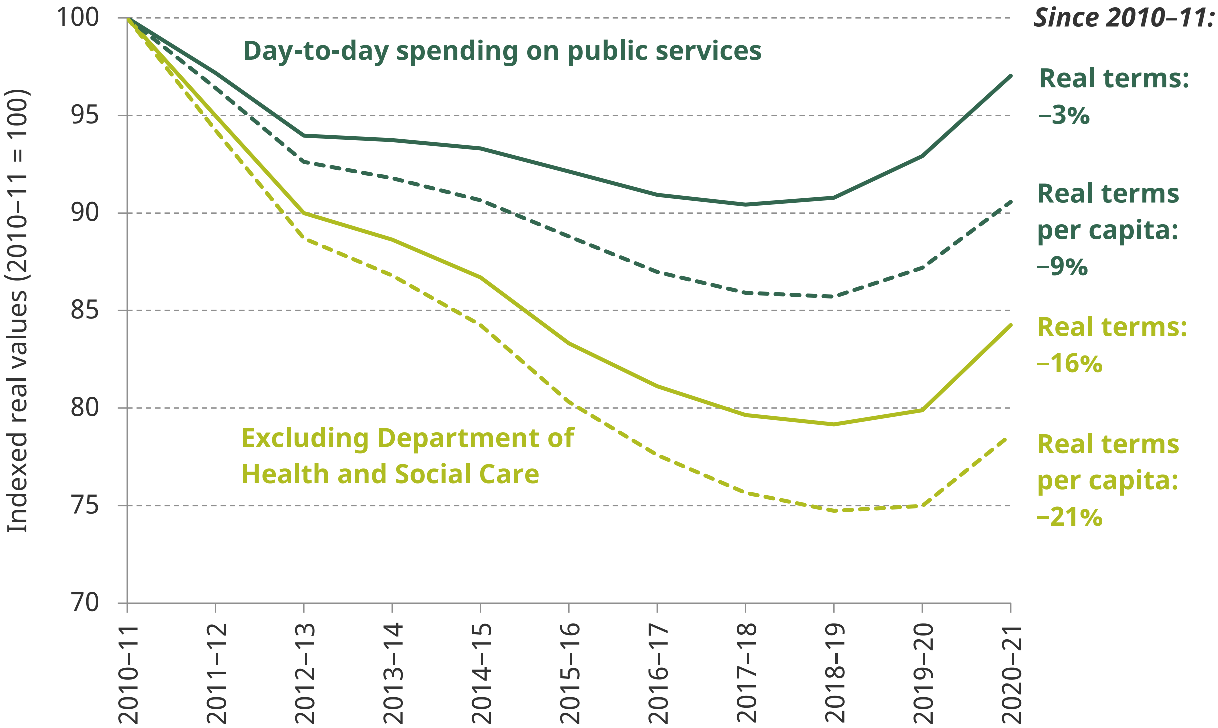
Within that, however, different areas of spending have fared very differently. The budget of the NHS has had repeated protection from cuts (and, indeed, repeated increases) and as a result comprises a greater share of departmental spending than ever before. By 2020–21, the DHSC is planned to account for 42% of total day-to-day spending. This share has rapidly increased in recent years: the (then) Department of Health (and other central government spending on social care) amounted to 33% of total day-to-day spending in 2010–11, and 26% at the turn of the millennium.

Stripping out the DHSC makes a big difference to the overall picture. The settlements in Spending Round 2019 are sufficient to reverse around a quarter of the cuts to other day-to-day public service spending seen since 2010–11. In 2020–21, spending is planned to be 16% below the 2010–11 level in real terms and 21% below in real per-capita terms (also shown in Figure 6.3).

5 Note that this refers to real growth in the OBR definition of public sector gross investment in capital DEL (PSGI in CDEL, adjusted for historical discontinuities). The equivalent figure for real growth in the Treasury definition of Capital DEL between 2019–20 and 2020–21 is 5.0% (which is the figure used in table 1.1 of Spending Round 2019).

6 Here and throughout, we define day-to-day spending on public services as public sector current expenditure in resource DEL (PSCE in RDEL), adjusted for historical discontinuities. The figure for real growth between 2018–19 and 2019–20 has also been adjusted to strip out the effect of changes to public service pension contributions.

Figure 6.3. Day-to-day spending on public services over the past decade



Note: Day-to-day spending refers to the OBR definition of public sector current expenditure in resource DEL, which differs from the Treasury definition of resource DEL excluding depreciation. Spending Round 2019 figures have been adjusted so as to be on a consistent basis with the OBR's historically consistent series for PSCE in RDEL and to strip out the effect of changes to public service pension contributions.

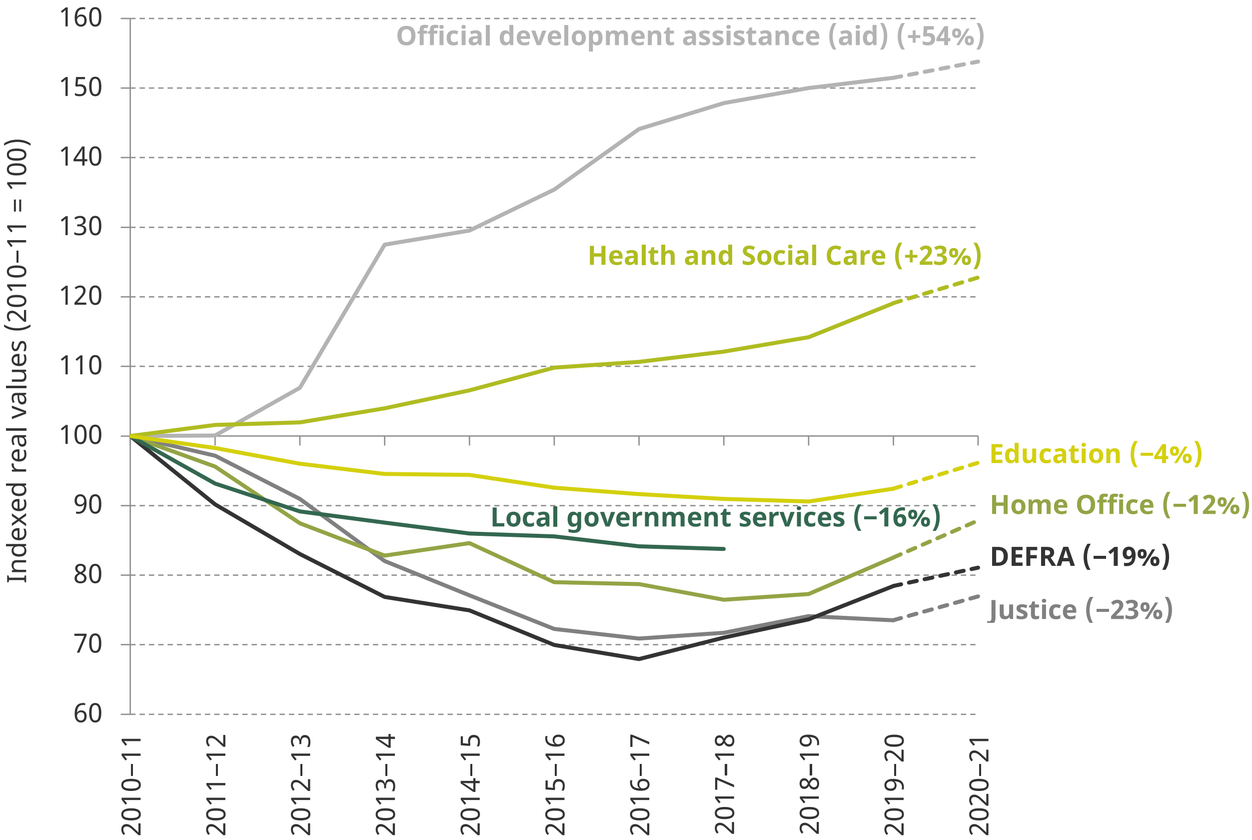
Source: Authors' calculations using OBR Economic and Fiscal Outlook March 2019, various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019 and ONS population figures.

Figure 6.4 describes the path of real-terms spending for selected areas since 2010–11. Total spending on official development assistance (ODA, which includes both day-to-day and investment spending on aid) has increased by more than 50% in real terms over the past decade, with a particularly sharp increase in 2013 (the first year in which the government had committed to spend at least 0.7% of national income on ODA). In contrast, total local government expenditure on services (including social care) fell by 16% between 2010–11 and 2017–18.[7] All other lines in Figure 6.4 represent day-to-day spending by central government departments. DHSC spending is set to be 23% higher in real terms in 2020–21 than a decade earlier, for example. And despite increases in day-to-day funding for the Department for Education, Home Office, DEFRA and the Ministry of Justice next year, each of these departments is set to have a lower budget in 2020–21 than in 2010–11 (4%, 12%, 19% and 23% lower, respectively). In per-person terms, day-to-day budgets for those departments will be 10%, 18%, 24% and 28% lower than a decade previously.

Austerity may be 'over' for many departments, in the sense that real-terms budget increases have returned, but it remains far from undone. Most departments' budgets remain some way below the level they were in 2010–11, and even further below the level

[7] This figure is for England only and is not available beyond 2017–18 as it is based on local authority out-turn data available only after the fact.

Figure 6.4. Spending paths for selected areas over the past decade



Note: 'Local government services' refers to service spending by English local authorities. Official development assistance includes both resource and capital spending. All other figures refer to resource DEL (excluding depreciation). DEFRA refers to the Department for Environment, Food & Rural Affairs. Final out-turn data for local government service spending are not available beyond 2017−18; provisional out-turns indicate that real-terms service spending was broadly flat between 2017−18 and 2018−19.

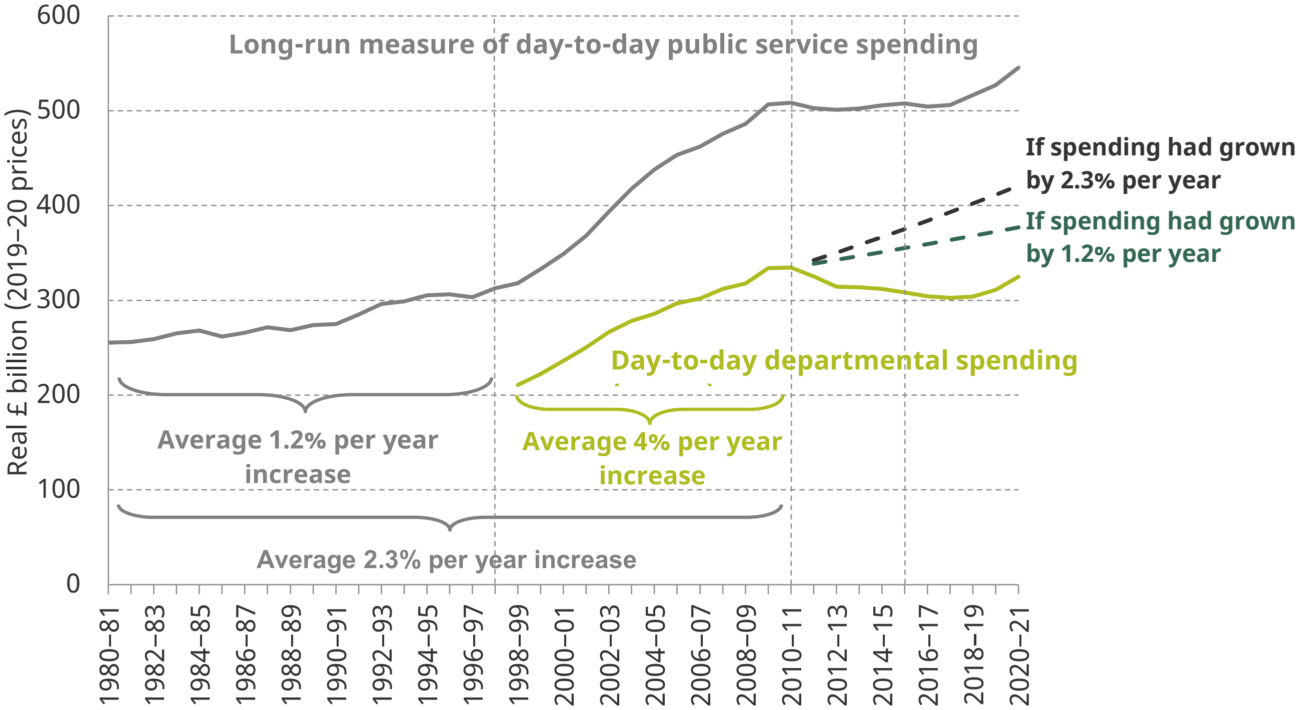
Source: Authors' calculations using various HM Treasury Public Expenditure Statistical Analyses, Spending Round 2019 and N. Amin Smith and D. Phillips, 'English council funding: what's happened and what's next?', IFS Briefing Note BN250, 2019, https://www.ifs.org.uk/publications/14133.

that might have been predicted prior to the crisis. This is because public service spending normally increases in real terms over time; as national income grows, the tax system raises more revenues, and spending the same *share* of national income would, for example, imply a higher *level* of spending in pounds billion terms.

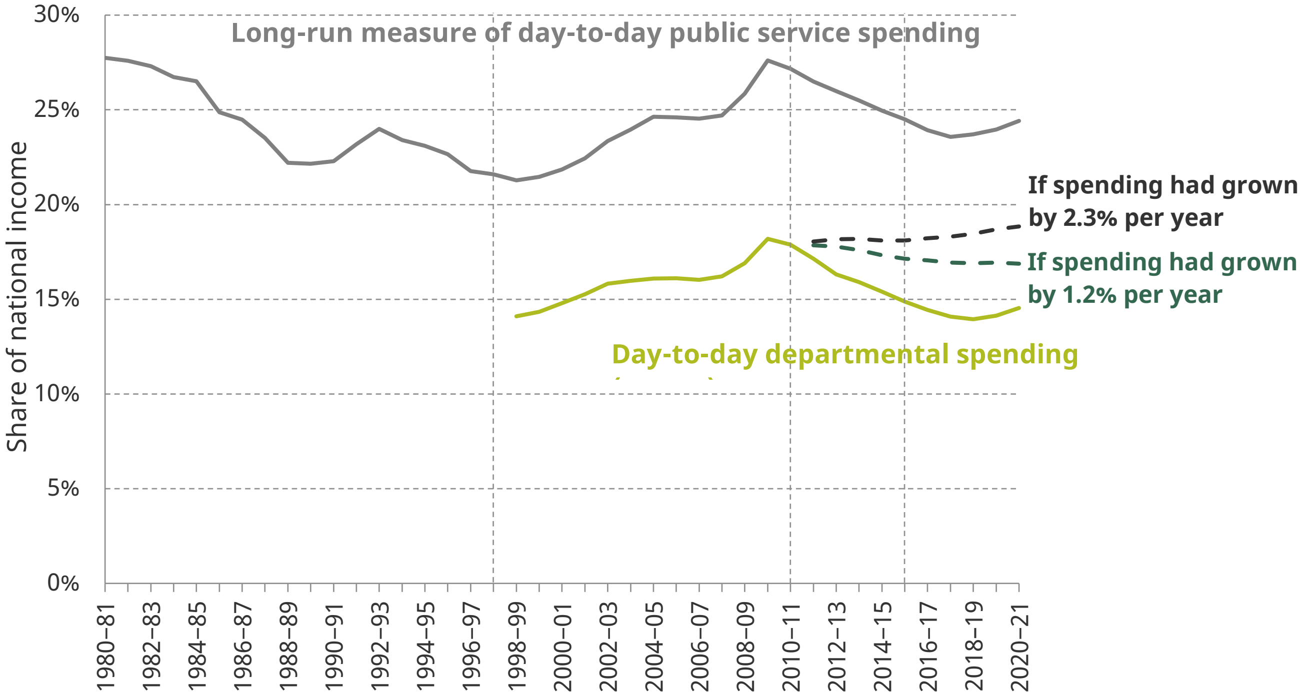
This is illustrated in Figure 6.5 – panel A shows day-to-day spending on services in real terms since 1980−81, while panel B shows spending as a share of national income. Between 1998−99 and 2010−11, day-to-day departmental spending grew at an average real rate of around 4% per year (faster than the real growth in national income over this period, and so this spending grew as a share of national income from 14.1% to 17.9%). To look further back, we need to use a broader measure of day-to-day public service

Figure 6.5. Day-to-day spending on public services over the long run

A. In real terms



B. As a share of national income



Note: Day-to-day departmental spending refers to the OBR definition of PSCE in RDEL. Long-run measure of day-to-day public service spending defined as total managed expenditure less spending on social security, public sector net investment and gross debt interest.

Source: Authors' calculations using OBR Economic and Fiscal Outlook March 2019, OBR Public Finances Databank, various HM Treasury Public Expenditure Statistical Analyses, ONS series JW2P, DWP benefit expenditure tables 2019 and Spending Round 2019.

spending, which includes day-to-day spending not done by central government.[8] Under this broader measure, spending on public services increased at an average annual real rate of around 2.3% between 1980−81 and 2010−11 (similar to the average growth rate of national income, leaving spending as a share of national income at roughly the same level in 2010−11 as in 1980−81).

The black dashed line on Figure 6.5 shows how day-to-day spending by central government departments would have evolved since 2010−11 had it increased at the long-run average rate of 2.3% per year. Spending in 2020−21 would be £100 billion higher than currently planned had this been the case. If departmental day-to-day spending had instead grown by 1.2% per year (the average growth rate between 1980−81 and 1997−98; shown by the dark green dashed line), spending would be £50 billion higher in 2020−21, and would have stabilised at around the pre-crisis level as a share of national income.

As things stand, day-to-day spending by central government departments is now forecast to be at around the same share of national income in 2020−21 as in 1999−00 – in other words, still lower than the share of national income in almost any year under the previous Labour government. On a broader measure (which includes day-to-day spending not done by central government departments), day-to-day spending next year is set to be at around the same levels as in 2006−07.[9] Mr Javid's public spending announcements must be seen in that context.

Investment spending

Investment spending by departments accounts for around 16% of the total, or around £61 billion in 2019−20. Between this year and next, it is now set to grow by 7.5% in real terms. Figure 6.6 shows that departmental capital spending grew at a rapid rate in the run-up to the financial crisis (average annual real growth was 9.4% between 1998−99 and 2008−09) but was cut back sharply in the years after 2010. Since 2012−13, however, investment spending by departments has steadily increased and will return in 2020−21 almost to its 2009−10 peak,[10] and to above pre-crisis levels; but, at 3.0% of national income, it will still be below its 2007−08 level on that measure. Public sector net investment (PSNI, a broader measure of investment spending than capital DEL) is discussed in Section 6.4.

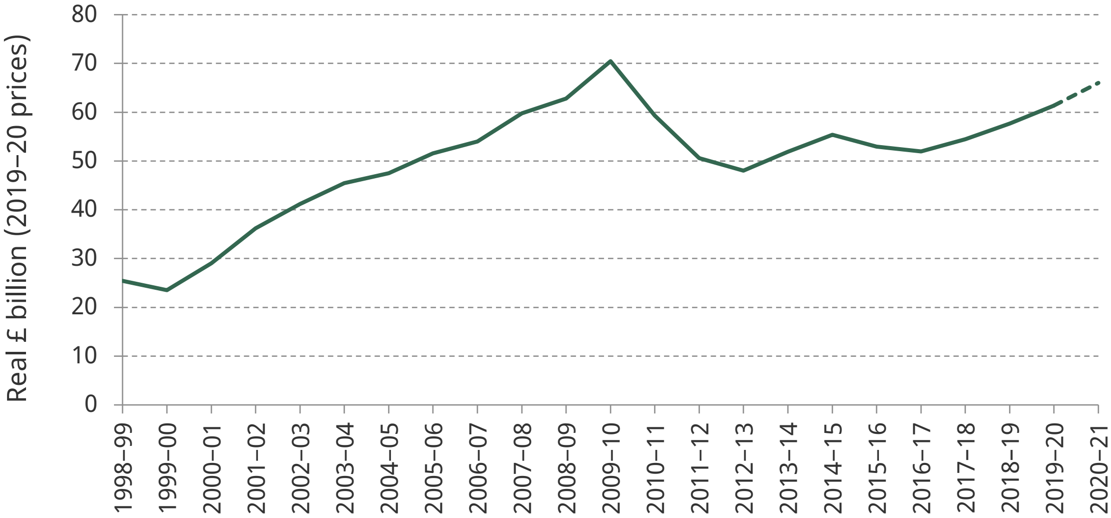
As with day-to-day spending on public services, the cuts to investment budgets did not fall equally, as shown in Figure 6.7. As ever, the DHSC was relatively (though by no means entirely) protected from cuts, and its capital budget has been steadily increased in recent years. As a result, the DHSC capital budget in 2020−21 is set to be 16% higher in real terms than in 2010−11. In sharp contrast, capital budgets for the Home Office and Department

8 We define this broader measure of public service spending as total managed expenditure less spending on social security, public sector net investment and debt interest. It therefore includes elements of day-to-day spending outside of departmental expenditure limits. The largest of these are locally financed current expenditure, transfers to the EU, net public service pension payments, VAT refunds, general government depreciation and environmental levies.

9 The biggest driver of the difference between these two measures is the substantial increase in self-financed local expenditure: increases in council tax and business rates revenues have offset part of the cuts in central government grants to local authorities.

10 The sharp peak in capital DEL in 2009−10 was in part a result of investment spending being brought forward from 2010−11 in response to the economic downturn. See sections 3.2 and 3.6 of R. Crawford, P. Johnson and B. Zaranko, *The Planning and Control of UK Public Expenditure, 1993−2015*, IFS Report R147, 2018, https://www.ifs.org.uk/publications/13155.

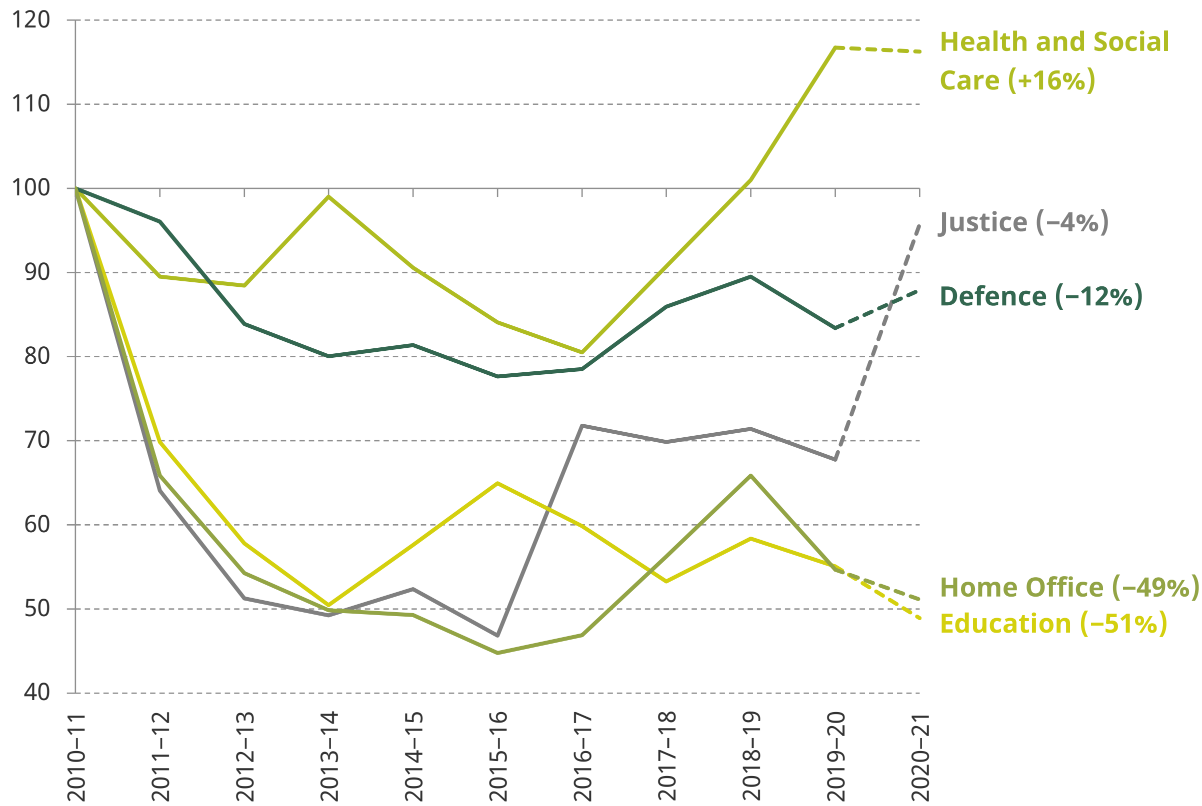
Figure 6.6. Capital spending by departments



Note: Figures refer to the OBR definition of public sector gross investment in capital departmental expenditure limits (PSGI in CDEL), adjusted for historical discontinuities. Figure for 2020–21 has been adjusted to reflect the £1.7 billion of additional spending announced at Spending Round 2019.

Source: Authors' calculations using supplementary table 4.3 of OBR Economic and Fiscal Outlook March 2019, various HM Treasury Public Expenditure Analyses, Spending Round 2019 and June 2019 GDP deflators.

Figure 6.7. Changes in capital spending by selected departments over the past decade



Source: Authors' calculations using various HM Treasury Public Expenditure Statistical Analyses, Budget 2018 and Spending Round 2019.

for Education will have been halved in real terms over the decade.[11] Justice investment spending was more than halved between 2010–11 and 2015–16 but has increased since then; additional funding announced in this year's spending round means that the Justice capital budget in 2020–21 will be only 4% lower in real terms than in 2010–11. Given that it is especially important to plan investment spending over a long time frame, the path of investment spending by the Ministry of Justice over the last decade (with deep cuts followed by a sharp increase) is unlikely to be conducive to ensuring spending is done well.

6.4 In the context of what Labour was proposing in 2017

Day-to-day spending

The £11.5 billion increase in day-to-day spending announced in the 2019 Spending Round – shown in mid green on Figure 6.8 – was not the first time that planned spending in 2020–21 has risen. Following the 2019 Spring Statement, spending plans for 2020–21 (shown in dark green) were around £16 billion higher (in 2019–20 prices) than what had been set out in March 2017 (shown in yellow), just before the last general election. This was in large part a result of the government's decision in June 2018 to promise an extra £20.5 billion in real terms for front-line NHS services by 2023–24.[12]

How do the latest spending plans compare with what Labour was proposing in the 2017 election? In its 2017 manifesto, the Labour party proposed a number of policies that would significantly increase day-to-day spending on public services – it estimated the cost of its policies to be £44.0 billion in cash terms in 2021–22 (£42.4 billion in today's prices).[13] At the time, IFS analysis raised some queries about the Labour costings of some of these policies,[14] but here we just take Labour's numbers with one exception: the cost associated with its policy to abolish tuition fees and bring back maintenance grants for poorer students.

The Labour party manifesto assumed this policy would increase government spending in 2021–22 by £11.2 billion in cash terms (£10.8 billion in today's prices). However, the long-run cost to the government would have been lower than this, as a substantial share of student loans made to cover fees and maintenance are not expected to be repaid in full. Our latest estimate of the long-run cost associated with Labour's policy is £6.6 billion in 2021–22 in today's prices; changes to the accounting rules (discussed in Chapter 4) mean that this figure is now equal to the short-term deficit impact as well.[15]

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[11] The cuts in Department for Education capital spending follow a decade of rapidly increased spending. Between 1998 and 2009, capital spending on schools (the bulk of capital spending by the Department for Education) increased by an average 12.9% per year in real terms (L. Sibieta, 'Schools spending in England 2010–15', *Fiscal Studies*, 2015, 36, 283–302, https://doi.org/10.1111/j.1475-5890.2015.12057).

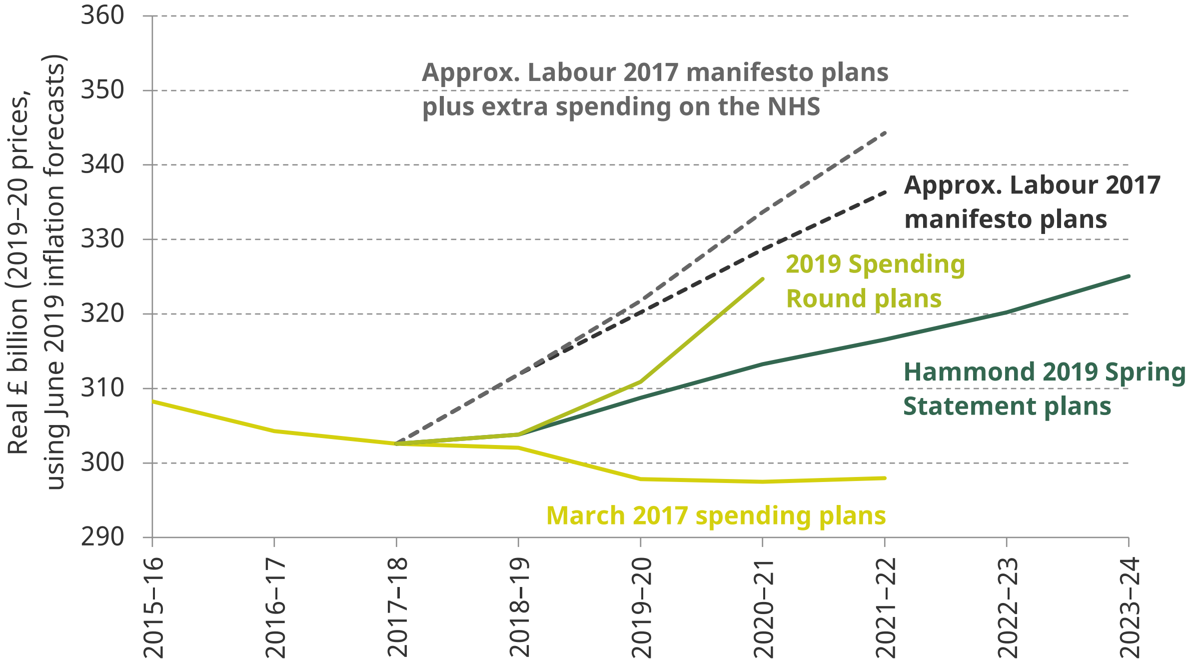
[12] 'Prime Minister sets out 5-year NHS funding plan', HM Treasury and DHSC press release, 18 June 2018, https://www.gov.uk/government/news/prime-minister-sets-out-5-year-nhs-funding-plan.

[13] Labour Party, 'Funding Britain's future', 2017, http://labour.org.uk/wp-content/uploads/2017/10/Funding-Britains-Future.pdf. Note that we exclude the £4.6 billion of commitments on social security, which would fall within annually managed expenditure.

[14] See R. Crawford, 'General election 2017, manifesto analysis: spending on public services', 2017, https://www.ifs.org.uk/publications/9258.

[15] In fact, Labour's policy is likely to increase day-to-day departmental spending by £14.7 billion and reduce investment spending by £8.1 billion in 2021–22 (both in today's prices), because under the ONS's new

Figure 6.8. Successive plans for day-to-day spending on public services



Note: Day-to-day spending refers to PSCE in RDEL. Labour 2017 manifesto contained policy proposals that it estimated would add £44 billion to day-to-day spending on public services in 2021–22 in cash terms, equivalent to £42.4 billion in today's prices. We take these costings at face value, with the exception of the cost associated with the manifesto's proposal to replace student loans with grants. For this policy, we include our latest estimate of the long-run cost of this policy per year, rather than Labour's estimate of the up-front cost (the latter being higher, since few loans are expected to be fully repaid), which lowers the real total to £38.3 billion. We assume here that three-quarters of the spending increase between 2017–18 and 2021–22 would be delivered by 2020–21. Hammond Spring Statement 2019 plans included additional funding for the NHS from 2019–20 onwards. We estimate that for Labour to match those NHS spending plans would require extra day-to-day spending of approximately £5 billion in 2020–21 and £8 billion in 2021–22, in 2019–20 prices, relative to manifesto plans. Spending Round 2019 added £2.1 billion of day-to-day spending for 2019–20 and £11.5 billion for 2020–21 (in 2019–20 prices). All figures have been adjusted for classification changes at each fiscal event between March 2017 and March 2019 so as to be on a consistent (March 2019) basis. Hammond Spring Statement 2019 plans and 2019 Spending Round plans have been adjusted to strip out the effect of changes to public service pension contributions. All series converted into real terms (2019–20 prices) using HM Treasury forecasts for the GDP deflator published in June 2019.

Source: Authors' calculations using OBR Economic and Fiscal Outlook March 2017, November 2017, March 2018, October 2018 and March 2019 (https://obr.uk/efo/economic-fiscal-outlook-march-2019/), Spending Review and Autumn Statement 2015 (https://www.gov.uk/government/publications/spending-review-and-autumn-statement-2015-documents), Spending Round 2019 (https://www.gov.uk/government/publications/spending-round-2019-document), Labour Manifesto 2017 (http://labour.org.uk/wp-content/uploads/2017/10/Funding-Britains-Future.pdf), R. Crawford and G. Stoye, 'Challenging times ahead for the NHS regardless of who wins the election', IFS Observation, 30 May 2017 (https://www.ifs.org.uk/publications/9262) and J. Britton, C. Farquharson and L. Sibieta, *2019 Annual Report on Education Spending in England*, IFS Report R162, 2019 (https://www.ifs.org.uk/publications/14369).

classification of student loans, the current government subsidy to higher education that comes through individuals not repaying their student loans in full is classified as capital spending. However, economically, loans that will not be repaid are more like grants and therefore we simply illustrate the difference between Labour and the current government plans as the net cost (i.e. £14.7 billion less £8.1 billion). See J. Britton, C. Farquharson and L. Sibieta, *2019 Annual Report on Education Spending in England*, IFS Report R162, 2019, https://www.ifs.org.uk/publications/14369.

We therefore illustrate the Labour manifesto plans as implying a total of £38.3 billion in additional spending in 2021–22 (in today's prices) over and above the Conservative government's March 2017 plans (£31.7 billion for Labour's pledges outside higher education, plus £6.6 billion for the estimated long-run cost of its higher education pledges). For simplicity, we assume that Labour would have increased spending smoothly over the four years between 2017–18 and 2021–22 to get to that level.

Given these assumptions, what is striking is that the latest spending plans of Mr Johnson's government for 2020–21 appear very similar to the level of spending we might have seen for a four-year phase-in of Labour's 2017 manifesto plans (we estimate that day-to-day spending would have been only £4 billion higher under Labour), and they are certainly closer to that than they are to what the government claimed it was planning to spend back in March 2017.

A reminder of the main Labour 2017 manifesto pledges on public service spending is set out in Table 6.1. In many cases, the Conservative governments of Mrs May and Mr Johnson have moved policy decisively in the direction Labour had been planning. Spending on schools was increased in the 2019 Spending Round in line with Labour's 2017 plans, while additional money was allocated to further education and social care. In some cases, the Conservatives have exceeded Labour's spending plans. Health spending has been increased by vastly more than either Labour or the Conservatives had committed to back in 2017 – the day-to-day budget of the DHSC in 2020–21 is set to be around £5 billion higher than Labour's manifesto plans implied back in 2017, and around £8 billion higher in 2021–22 (both in 2019–20 prices). Mr Johnson has also doubled Labour's planned additional recruitment of police officers.

One significant Labour proposal was to increase public spending on university education by replacing university tuition fees with grants and restoring maintenance grants for poorer students. Since 2017, the Conservative government has frozen the level of tuition fees in cash terms, and increased the repayment threshold (the income level above which graduates must make repayments on their student loans) from £21,000 to £25,000. This latter policy is estimated to cost the government around £2.3 billion a year in the long run, as a result of reduced loan repayments by graduates over their lifetimes before their loans are written off 30 years after graduation.[16] However, while this has reduced the cost of Labour's policy to replace student loans with government grants, the latest estimate by IFS researchers is that Labour's policy would still cost £6.6 billion (in today's prices) per year by 2021–22.[17]

The government has delivered on its manifesto commitment to introduce an 'extended' entitlement to 30 hours a week of funded childcare for 3- and 4-year-olds in working families, and also increased per-hour spending by 7% in 2017–18.[17] But while these policies have meant a £0.8 billion increase in spending on free childcare between 2016–17 and 2018–19, they are nowhere near as substantial as the significant changes the Labour party promised in 2017. Labour had been planning to extend the offer of 30 hours of free

16 C. Belfield, J. Britton and L. van der Erve, 'Higher education finance reform: raising the repayment threshold to £25,000 and freezing the fee cap at £9,250', IFS Briefing Note BN217, 2017, https://www.ifs.org.uk/publications/9964.

17 J. Britton, C. Farquharson and L. Sibieta, *2019 Annual Report on Education Spending in England*, IFS Report R162, 2019, https://www.ifs.org.uk/publications/14369.

Table 6.1. Main Labour 2017 manifesto public service spending proposals

	Policy and cost as per manifesto (cost in 2021–22, cash terms)	Main Conservative government action since 2017 election
Early years education	Extending 30 free hours to all 2-, 3- and 4-year-olds, more subsidised childcare on top of this, raise reimbursement rates for free hours, increase Sure Start funding (offset somewhat by ending tax- and benefit-system subsidies for childcare) Net cost: £5.3bn	Introduction of extended entitlement to funded childcare for 3- and 4-year-olds in working families Per-hour spending for 3- and 4-year olds increased by 5% between 2016–17 and 2018–19 (though 1% cut for 2-year-olds)
Schools	Reverse cuts [since 2009–10] and protect per-pupil funding in real terms Extend free school lunches to all primary school pupils Cost: £6.3bn	Mr Johnson pledged to increase school budgets by £4.6bn relative to 2019–20 levels by 2022–23
Further education (FE)	Introduce free FE tuition, equalise 16–19 funding and restore the Education Maintenance Allowance Cost: £2.5bn	Spending Round 2019 increased FE spending by £400m in 2022–23 (including extra funding for roll-out of T levels)
Universities	End tuition fees (replace with grant funding), bring back maintenance grants for poorer students Cost: £11.2bn	Government increased loan repayment threshold in October 2017 and froze the maximum tuition fee in cash terms Commissioned the Augar Review into post-18 education
Health	Increase day-to-day spending by £5.8bn relative to current plans by 2021–22 (including £0.8bn for higher pay) Restore nurses' bursaries (cost: £0.6bn)	Government pledged a £20.5bn (real-terms) increase for front-line English NHS services between 2018–19 and 2023–24
Social care	Increase funding by £2.1bn Ambition for a National Care Service (estimated cost: around £3bn)	Extended social care precept and topped up social care funding (including £1bn increase in Spending Round 2019)
Police	Recruit an additional 10,000 officers Cost: £0.3bn	Mr Johnson pledged to recruit an additional 20,000 officers and awarded the Home Office a £0.8bn real increase in Spending Round 2019
Public sector pay	Lift public sector pay cap Cost: £4bn	Cap on public sector pay lifted in September 2017 (albeit without extra funding explicitly being made available to departments to cover the increase in labour costs)
Barnett implications	The above policies would imply increases in block grant for Scotland, Wales and Northern Ireland Cost: £6.1bn	

Source: Labour Party, 'Funding Britain's future', 2017, http://labour.org.uk/wp-content/uploads/2017/10/Funding-Britains-Future.pdf.

childcare to all 2-, 3- and 4-year-olds, increase the reimbursement rate for providers significantly, offer additional subsidised childcare on top of this, and increase spending on Sure Start – at a net cost of around £5 billion.[18]

Overall, the Spending Round 2019 announcements of the new prime minister closed many of the differences between the Conservative offer and that of the Labour party at the time of the 2017 general election. Furthermore, the scale of the increases in spending on the NHS has been such that the total level of day-to-day spending on public services looks similar next year to what we might have expected a Labour government to spend based on its 2017 manifesto promises. The composition, though, is somewhat different – with higher spending on the NHS and lower spending on early years and university education under the current Conservative government than the Labour 2017 manifesto implied.

However, arguably the Labour 2017 manifesto understated how much Labour would have chosen to spend on the NHS had they been elected. In the run-up to the 70th anniversary of the NHS, the future funding of the NHS received a great deal of attention. In May 2018, a joint report from IFS researchers and the Health Foundation estimated that UK spending on healthcare would have to rise by an average of 3.3% a year over the next 15 years just to maintain current levels of NHS provision.[19] Shortly after, then prime minister Theresa May announced that day-to-day spending on the English NHS would increase by £20.5 billion in real terms between 2018–19 and 2023–24 (equivalent to average growth of 3.4% per year). Had Labour increased NHS spending to the same extent as the Conservative government has, in addition to its manifesto commitments, then day-to-day spending could in fact have been around £5 billion higher in 2020–21 (in today's prices) than our illustrative black line in Figure 6.8 suggests, and around £8 billion higher in 2021–22. We show this in Figure 6.8 with a grey line.

Investment spending

Labour's manifesto also proposed a 'National Transformation Fund' to invest £250 billion over 10 years. Public sector net investment (PSNI) as a share of national income is already at a relatively high level by recent historical standards (as shown in Figure 6.9). If achieved, Labour's plans (illustrated by the dashed dark green line) would return public investment to levels last sustained in the early 1970s.[20]

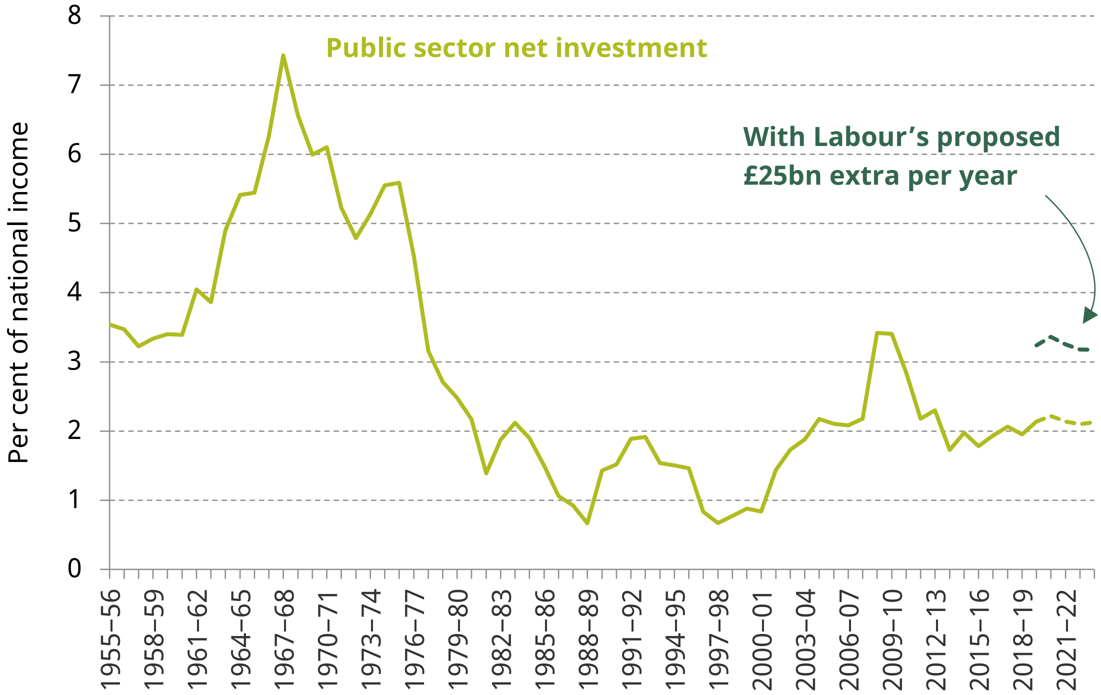
The constraints on a Labour government looking to deliver such investment may not be funding-related, but instead be a shortage of appropriately skilled workers, a dearth of 'shovel-ready' projects and the fact that under governments of all political stripes investment spending has consistently and repeatedly tended to come in lower than

[18] This was a net costing where the total cost of the additional spending arising from these policies was reduced by extra revenue that was expected to be received as a result of the associated policy to move away from demand-side subsidies for childcare through the tax and benefit systems. By only including the net costing in our measure of Labour's manifesto plans, we are slightly understating its actual planned level of day-to-day public service spending.

[19] Institute for Fiscal Studies and Health Foundation, *Securing the Future: Funding Health and Social Care to the 2030s*, 2018, https://www.ifs.org.uk/publications/12994.

[20] It is important to exercise caution when making such comparisons over longer periods of time. Genuine reductions in public investment spending have played a role in PSNI falling as a share of national income, but the decline also reflects the changing boundaries of the state. For a more detailed discussion, see T. Clark, M. Elsby and S. Love, 'Twenty-five years of falling investment? Trends in capital spending on public services', IFS Briefing Note BN20, 2001, https://www.ifs.org.uk/publications/1770.

Figure 6.9. Public sector net investment since 1955–56



Note: Figure for 2020–21 has been adjusted to reflect the £1.7 billion of additional spending announced at Spending Round 2019; growth beyond that is assumed to be the same as in provisional plans published at the 2019 Spring Statement. Forecasts of PSNI as a share of national income under Labour's plans take account of the impact on real output using multipliers from the Office for Budget Responsibility. Figures shown are those prior to the recent student loans accounting change, following which loans made to students that are not expected to be repaid count towards capital spending. However, economically, it makes more sense to treat these the same way as grants to students (which do not score as capital spending).

Source: Authors' calculations using OBR Public Finances Databank (accessed July 2019), OBR fiscal multipliers (https://obr.uk/box/fiscal-multipliers/), Labour Party manifesto 2017 (http://labour.org.uk/wp-content/uploads/2017/10/Funding-Britains-Future.pdf) and Spending Round 2019 (https://www.gov.uk/government/publications/spending-round-2019-document).

planned.[21] Such a commitment, however, would go some way towards delivering long-term certainty over infrastructure funding, as recommended by the National Infrastructure Commission in its inaugural National Infrastructure Assessment.[22]

6.5 Conclusion

The 2019 Spending Review increased day-to-day spending on public services across the board, and by 4.4% in real terms overall. This has been heralded by many as the end of austerity.

It is important, however, to keep some perspective. The picture is less rosy outside the favoured DHSC. Although many departments may have breathed a sigh of relief at the

[21] R. Crawford, P. Johnson and B. Zaranko, 'The planning and control of UK public expenditure, 1993–2015', IFS Report R147, 2018, https://www.ifs.org.uk/publications/13155.

[22] National Infrastructure Commission, July 2018, https://www.nic.org.uk/our-work/national-infrastructure-assessment/.

real-terms increases in their budgets, this will in most cases be insufficient to undo the budget cuts implemented since 2010. And a decade of spending restraint means that even after recent announcements, spending on public services next year will be well below where we might have expected it to be, given historical rates of spending growth and growth in national income.

An important question many departments will be asking is whether this is a pause or an end to austerity. Will increases in budgets be forthcoming as standard going forwards? There are reasons for them to be concerned. The government's ability to spend money on public services depends on the performance of the economy, its willingness to tax and its willingness to borrow. The OBR's forecasts for growth over the next five years are underwhelming at best, and these are predicated on a 'smooth and orderly' departure from the European Union. The new Conservative leadership does look more inclined to borrow than its predecessors – announcing in the Spending Round that it would be reassessing the current fiscal targets – but the Prime Minister also has stated big ambitions to cut taxes, which may leave little more for public services. He has also stated an ambition for the national debt to fall year on year. If the economy does falter, this is unlikely to be compatible with sustained spending increases on the scale of the recent spending round, let alone those in combination with tax cuts.

There is also the likelihood of an early election. While this is likely to be triggered by, and therefore largely focused on, disagreement between political parties (and in some cases between politicians within political parties) about how the UK leaves the EU, we are also likely to see big differences between Labour and the Conservatives in their overall stance on the future size and composition of public service spending – even if such differences appear to have narrowed since 2017. The 2019 Spending Round provided breathing space for departments, but no real clarity on where things are headed in the medium term.